

The Governor's Report – May 2020

The Governor's Report for May 2020 provides an overview of key activities of the Central Bank concerning implementation of targets and objectives defined by the Central Bank of Montenegro Policy for 2020, on a monthly basis.

In May, activities of the Central Bank were conducted pursuant to the planned obligations determined by the Central Bank of Montenegro Work Programme for 2020.

Preliminary Monstat data show that Montenegro's 2019 real GDP growth rate amounted to 3.6%, based on quarterly estimates. According to preliminary Monstat data, a real growth of 2.7% was recorded in Q1 this year in relation to Q1 of the previous year, while according to the Ministry of Finance estimate, a decrease of 6.8% is expected in 2020.

In May 2020, consumer prices were 0.1% higher in relation to the previous month, but 1.0% lower y-o-y.

During the first five months of 2020, industrial output recorded a year-on-year increase of 4%. The increase was recorded in mining and quarrying (17.1%), and manufacturing industry (7.5%), while electricity, gas and steam supply sector recorded a decline of 4.1%.

According to preliminary Monstat data, passenger transport in Q1 2020, in relation to the same quarter of the previous year, as a result of the COVID-19 pandemic, recorded a decline in all types of transport: railway by 19.8%, road by 23.5% and passenger transport at airports 11.0%.

During the first five months of 2020, production of wood products amounted to 71,786 m³, which is an increase of 57.6% in relation to the corresponding period of the previous year. Preliminary Monstat data show that in the first three months of 2019, construction recorded y-o-y increase of 4.6% in the value of executed construction works, as well as a 7.6% increase in effective working hours.

In May 2020, the average number of employed persons amounted to 181,030, which is a decline of 11.8% year-on-year and 1.9% less in relation to the previous month. The number of unemployed persons amounted to 42,194, which represents

an increase of 15.1% year-on-year and also an increase of 4.5% compared to April 2020.

As at 31 May 2020, out of 48,842 business entities registered as active in the Central Registry of Business Entities, and as having active accounts in the Central Registry of Transaction Accounts, a total of 14,755 or 30.2% were frozen. Compared to the previous month, the number of blocked business entities decreased by 0.5%, while compared to the same month of 2019, its growth stood at 4.7%. At end-May 2020, the total amount of debt used as the basis for the freezing of accounts amounted to 624.8 million euros, showing a monthly and an annual increase of 1.6% and 0.4%, respectively.

As at 31 May 2020, out of the total number of business entities with frozen accounts (14,755) a total of 1,955 business entities were under uninterrupted blockage up to 365 days, with frozen funds in the amount of 32,965,075.61 euros or 5.3% of the total amount of frozen funds. The number of business entities under uninterrupted blockage exceeding 365 days was 12,800 with frozen funds in the amount of 591,800,746.39 euros or 94.7% of the total amount of frozen funds of business entities.

As at 31 May 2020, debt concentration was relatively high, considering that top 10 debtors (0.07% of total recorded debtors) accounted for 19.8% of the total debt being the basis for freezing of accounts. In addition, 50 of blocked business entities (0.3% of total number of blocked business entities) accounted for 40.7% of the total debt used as the basis for the account freeze.

At end-May this year, total assets and liabilities amounted to 4,512 million euros, being 0.04% less in relation to the previous month. In terms of the structure of aggregate balance sheet of banks, total loans make up the dominate share. At end-May, total loans amounted to 3,074.8 million euros, which is 0.9% lower in relation to the previous month and 4.6% higher compared to May 2019.

In the structure of liabilities, deposits made up the main share of 73.1%. Total banks' deposits amounted to 3,299.2 million euros in May 2020 and they recorded a monthly decrease of 0.4%, and a 0.1% decline in relation to May 2019. Total capital of banks amounted to 607.6 million euros at end-May this year, which is a monthly decrease of 0.1%. Also, the total capital is 15.3% higher than in the same period of the previous year.

In May, past due loans (without interests, and prepayments and accruals) amounted to 160.6 million euros, which is a decrease of 9% in relation to the previous month, while they recorded a decline of 11.2% in relation to May 2019. At end-May 2020, non-performing loans (without interests, and prepayments and accruals) amounted to 162.2 million euros and made up 5.3% of total loans. In relation to the previous month, non-performing loans of banks decreased by 0.5%, while recording an annual increase of 16.2%.

The weighted average lending effective interest rate (WALEIR) on total loans approved amounted to 5.94% at end-May 2020, which represents a monthly decrease of 0.02 percentage points, while in relation to end-May 2019 it recorded a decrease of 0.24 percentage points. The weighted average lending effective interest rate (WALEIR) on new loans amounted to 4.77% in May 2020, which represent a monthly decrease of 0.62 percentage points, and a decrease of 1.43 percentage points in relation to May 2019. The weighted average effective deposit interest rate amounted to 0.41% at end-May this year keeping its value seen at the end of the previous month, while recording a decline of 0.06 percentage points in relation to end-May of the previous year.

At end-May 2020, reserve requirement of banks amounted to 179.3 million euros, which represents a monthly decrease of 72.4 million euros or 28.8%, while in relation to the corresponding period of the previous year reserve requirement decreased by 64.1 million euros or 26.3%. During May 2020, all banks allocated and maintained reserve requirement within prescribed limits. In the total allocated reserve requirement, 51.4% was allocated to the reserve requirement account in the country, while 48.6% was at the CBCG foreign accounts.

Gross insurance premium up to end-May 2020 amounted to 37.9 million euros. Non-life insurance premiums accounted for the main share in its structure with 80.2%, while invoiced life insurance premiums accounted for 19.8%.

In May 2020, Montenegro Stock Exchange recorded a turnover in the amount of 2.9 million euros and 139 transactions. The effected turnover was 907.1% higher than in the previous month, while in relation to May 2019 it was 96.1% lower. As at 31 May 2019, stock exchange capitalisation amounted to 3,374.6 million euros, recording a slight monthly decline, and the annual increase of 6.3%. At the same time, the MONEX index stood at 10,241.67 index points at end-May this year, recording a monthly and an annual decrease of 0.2% and 2.9%, respectively. The

MNSE10 index amounted to 710.15 index points and it increased by 4.7% in relation to the previous month, but it decreased by 12.6% year-on-year.

In May 2020, according to the Ministry of Finance estimates, Montenegrin fiscal deficit amounted to 44.3 million euros. Source revenues of the budget of Montenegro amounted to 115.3 million euros or 2.5% of estimated annual GDP, which represents a decrease of 21.9% in relation to the plan for May. In relation to source revenues recorded in May 2019, there was a decrease of 20%. At the same time, budget expenditure amounted to 159.6 million euros or 3.5% of the estimated annual GDP, recording a year-on-year increase of 9.2%, and staying below the plan by 3.8%.

The Ministry of Finance data indicate that Montenegro's gross government debt amounted to 3,345.3 million euros or 72.6% of GDP at end-March this year. Of this amount, domestic debt accounted for 535.6 million euros or 11.6% of GDP, and external debt stood at 2,807.8 million euros or 60.9% of GDP. The net government debt of Montenegro amounted to 69% of GDP.

In May, the Central Bank continued with the activities aimed at meeting the requirements on the road towards Montenegro's accession to the EU. With regard to the meeting of the Sub-Committee for Internal Market and Competition, the Central Bank of Montenegro provided the Ministry of Economy with the Annex for the reporting period from 13 June 2019 to 1 May 2020. Data related to the real effective exchange rate for Montenegro, obtained from the IMF, were forwarded to the European Central Bank, at its request. The monitoring of the implementation of the planned activities continued for the Twinning project "Support to the Regulation of Financial Services". During May, an online mission regarding the *SREP* was held in the CBCG, as well as the one concerning financial stability tools and capital buffers.

With a view to fostering and maintaining a sound banking system, Montenegro's banking sector was subject to continuous oversight and analysis. International reserves management was performed based on the principles of liquidity and safety. The activities regarding the Central Bank's function of a fiscal agent were performed successfully. In May, RTGS and DNS systems availability reached 100%.

The general public was informed timely, and in line with the highest transparency standards about the activities, goals, and results of the CBCG's operations. This was done by means of public announcements, publications, web presentations, and

media appearances. Pursuant to the Law Supplementing the Payment System Law, the Central Bank continued to publish on its website the information on legal entities and entrepreneurs with frozen accounts in the amount over 10,000 euros for a continuous period exceeding 30 days.